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Justin Thompson  
Manager  
Regulation, Policy & Analysis

Tel 602/250-2060  
Fax 602/250-3003  
e-mail: Justin.Thompson@aps.com  
<http://www.aps.com>

Mail Station 9708  
P.O. Box 53999  
Phoenix, AZ 85072-3999

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January 13, 2006

Mr. Ernest Johnson  
Director, Utilities Division  
1200 West Washington  
Phoenix AZ 85007

RE: Notice of Reaching \$50 Million Power Supply Adjustor Trigger – Docket No. E-01345A-03-0437 and E-01345A-05-0526

Dear Mr. Johnson:

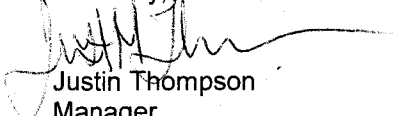
Pursuant to Decision No. 67744 (April 7, 2005) and Section IV, Paragraph 19(e) of the 2004 APS Settlement Agreement, when the Power Supply Adjustor ("PSA") balancing account reaches either plus or minus \$50 million, APS has 45 days to file for Commission approval of a surcharge to amortize the over-recovered/under-recovered balance and to reset the balancing account to zero. If APS does not want to request a surcharge to reset the balance to zero, it is required to file a report explaining why.

On December 1, 2005, APS filed its monthly PSA report for the month of September 2005 indicating a bank balance of some \$140 million. After subtraction of the \$80 million for which the Company has already requested a PSA surcharge, this leaves a balance of \$60 million.

On January 6, 2006, APS filed an Application for an Emergency Interim Rate Increase (E-01345A-06-0009). Combined with the pending \$80 million PSA surcharge request and the anticipated adjustment to the annual PSA factor in April of 2006, APS anticipates that the PSA bank balance will be reduced to under \$50 million by year end 2006. Thus APS has determined at this time that a second PSA surcharge request may not be necessary, assuming prompt and positive Commission action on the three matters referenced above. APS therefore will hold any such request in abeyance for the present time. However, should the Commission deny adequate relief in any of the above matters or adopt the pending Recommended Order in the above Dockets, APS reserves the right to seek a PSA surcharge should its then existing PSA bank balance be in excess of \$50 million.

If you or your Staff have any questions, please feel free to call me.

Sincerely,

  
Justin Thompson  
Manager  
Regulatory Policy and Analysis

Cc: B. Bozzo  
Stephen Ahearn (Residential Utility Consumer Office)  
Docket Control


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